



**Federal Energy Regulatory Commission
June 16, 2006
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher**

**G-1/G-2: Natural Gas Interchangeability & Natural Gas Supply Association
(PL04-3-000 and RM06-17-000)**

"Today, the Commission adopts a policy statement on natural gas quality and interchangeability that will clarify how we will proceed on these issues in the future.

The policy statement explains our general approach. The Commission has two clear policy goals in this area. First, we must meet the essential needs of consumers by accommodating the greatest economic mix of gas supply with minimum barriers to new supply sources. Second, we must assure the safe and reliable operation of interstate natural gas pipelines. Any approach must be consistent with both of these policy goals.

The Commission has steadily addressed natural gas quality and interchangeability in recent years. Typically, these issues have come before the Commission as a result of complaints against pipelines by natural gas producers, shippers, and end users. We have also dealt with them in tariff and certificate proceedings. As we have addressed gas quality and interchangeability issues in these various proceedings, we have typically balanced the two policy goals I just mentioned: allowing the greatest economic mix of gas supply and assuring the safe and reliable operation of interstate natural gas pipelines.

The Commission has had no generic policy in this area. While most, if not all, interstate natural gas pipelines have provisions in their tariffs governing gas quality, individual pipelines have different standards, practices, and enforcement mechanisms.

I want to applaud the work of the Natural Gas Council, and the working groups. In particular, I want to praise the interim guidelines developed by the NGC+ Group. We believe the interim guidelines provide a sound basis to address natural gas quality and interchangeability issues. That is what we propose to do in the policy statement. Indeed, the Commission has relied on the interim guidelines to resolve various gas quality and interchangeability complaints.

The NGC+ Group proposed interim guidelines in large measure out of recognition that significant scientific research is needed to better understand the natural gas quality and interchangeability issues. Both the gas quality and interchangeability working groups called for more research. I want to commend the Department of Energy for answering that call and funding significant research in this area.

The Commission has decided against pursuing a natural gas quality and interchangeability rulemaking at this time. That is based largely on a view that it is not apparent that natural gas quality and interchangeability is a national problem that lends itself to a national solution. It is also based on a recognition that there is a need for significant research in this area, a need that is not disputed.

The proponents of a rulemaking approach have the burden of showing that the problem is a national one that lends itself to a national solution. They also have the burden of showing that their proposed approach is just and reasonable. In my view,



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they did not meet their burden, so the Commission denies the petition for rulemaking.

I want to commend the natural gas industry for reaching a good level of consensus on this issue. Two years ago, there was very little consensus in the industry, with sharp divisions among the sectors and differences even within sectors. I recognize the effort that went into reaching a higher level of consensus, and that consensus helped put the Commission into a position where it could act today.

I support the policy statement and the order denying the petition for rulemaking."